Getting Ready for Goods and Services Tax (GST)

Introduction. GST was first mooted by the Government back in 2007 to replace the current indirect taxes under the Sales Tax and Services Tax regime. This was slated for implementation in early 2007 but was deferred. The GST received much attention again in 2009 when it was announced to the public that GST would be scheduled for implementation in July 2011. Of course, we would already know by now that implementation of GST in Malaysia has again been deferred by the Government, citing reasons that further public awareness is to be garnered before implementation. Thus, GST has not been shelved; it has been merely deferred, again. Although there is now no clear indication of the implementation date, businesses clearly and surely need to be prepared for GST implementation, as failure to comply or meet the GST requirements as and when it is implemented would bring unpleasant consequence of non-compliance.

How would GST work? GST is a broad-base consumption tax levied only when the product is bought or consumed, or when service has been rendered. GST also known as Value Added Tax (VAT) in many countries, which taxes upon the various value adding performed on each stage of the good's retail distribution. Although GST would be charged and collected throughout the production and distribution chain, the total tax is ultimately borne by the final consumer. GST would be levied on all goods and services supplied in Malaysia (except for designated areas such as Langkawi, Labuan and Tioman) unless specifically exempted under the Laws (Section 18 of GST Bills).

Implications on the business and economic sector. With the current indirect tax regime, tax is a cost which affects pricing when the goods or services are passed down the supply chain. Tax becomes embedded and compounded and businesses will often have the issue of distinguishing between the total cost of goods sold with the tax element. Traders stand to benefit at the expense of the Government's revenue. However, with GST at a proposed rate of 4%, cost of goods is expected to lower theoretically as the current Sales and Service Tax rate is 10% and 5% respectively.

As GST is a broad based tax, the ultimate implementation is expected to boost up the revenue of the Government where it will potentially bring hidden or shadow sectors to light. The implementation on the other hand would likely reduce instances of smuggling or distribution of contraband goods, as one can only claim for an input tax if their supplier is GST registered.

How to manage GST transitions? Plan your business! Register your business as a participant of GST at least three (3) months before GST implementation date.

Relook at all your existing contract, payments received or even invoices which you have issued for obligation in the future under the respective contracts, payments received or even invoices. Manage them as this will be relevant to your business under the GST regime and may have an ultimate impact on the costing for your goods and services.

Conclusion. Business organisations can expect the GST process to impact on all areas of operations, including information technology (IT), finance, marketing, human resource (HR) and procurement. These areas need to be project-managed accordingly to ensure smooth transition into the GST regime. Thus, businesses should make full use of the time available to organise the business to be GST ready.

Failing to plan, is planning to fail.

Clearly, businesses plan to succeed.